

# **Dreman Contrarian Hedge Fund, L.P.**

## **Performance Review and Investment Philosophy September 2003**

**General Partner: Dreman Contrarian Hedge Fund Management, L.L.C.**

**Principal: David Dreman**

**Source: DCHFM, L.L.C.  
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# What is Dreman Contrarian Hedge Fund?

**A Long/Short Equity product developed to leverage the long-term superior performance of the Dreman contrarian value philosophy.**

## Long Philosophy

- 20 – 25 positions
- Contrarian value – Low P/E
- Opportunistic – take advantage of investor overreaction
- Low turnover
- 10% maximum weight at purchase

## Short Philosophy

- 0 – 25 positions
- Bet against extreme valuations and concept stocks
- Opportunistic – take advantage of investor overreaction
- Strict loss control - 10% maximum loss per position
- 4% maximum weight at purchase



# Investment Decisions Makers

- **David Dreman, Principal**

- 30+ year history of successful value management
- Portfolio Manager of the Scudder Dreman High Return Fund
  - ➔ #1 Ranked Equity Income Fund - Life of Fund performance (Mar88) by Lipper (3/31/02)
  - ➔ 5-Star Morningstar Fund ranking (3/31/02)
- As CIO of Dreman Value Management and predecessor firms outperformed the S&P 500 cumulatively since the early 1980's
- Author of 4 books on value Investing and longest running Forbes columnist

- **Nelson Woodard, Ph.D.**

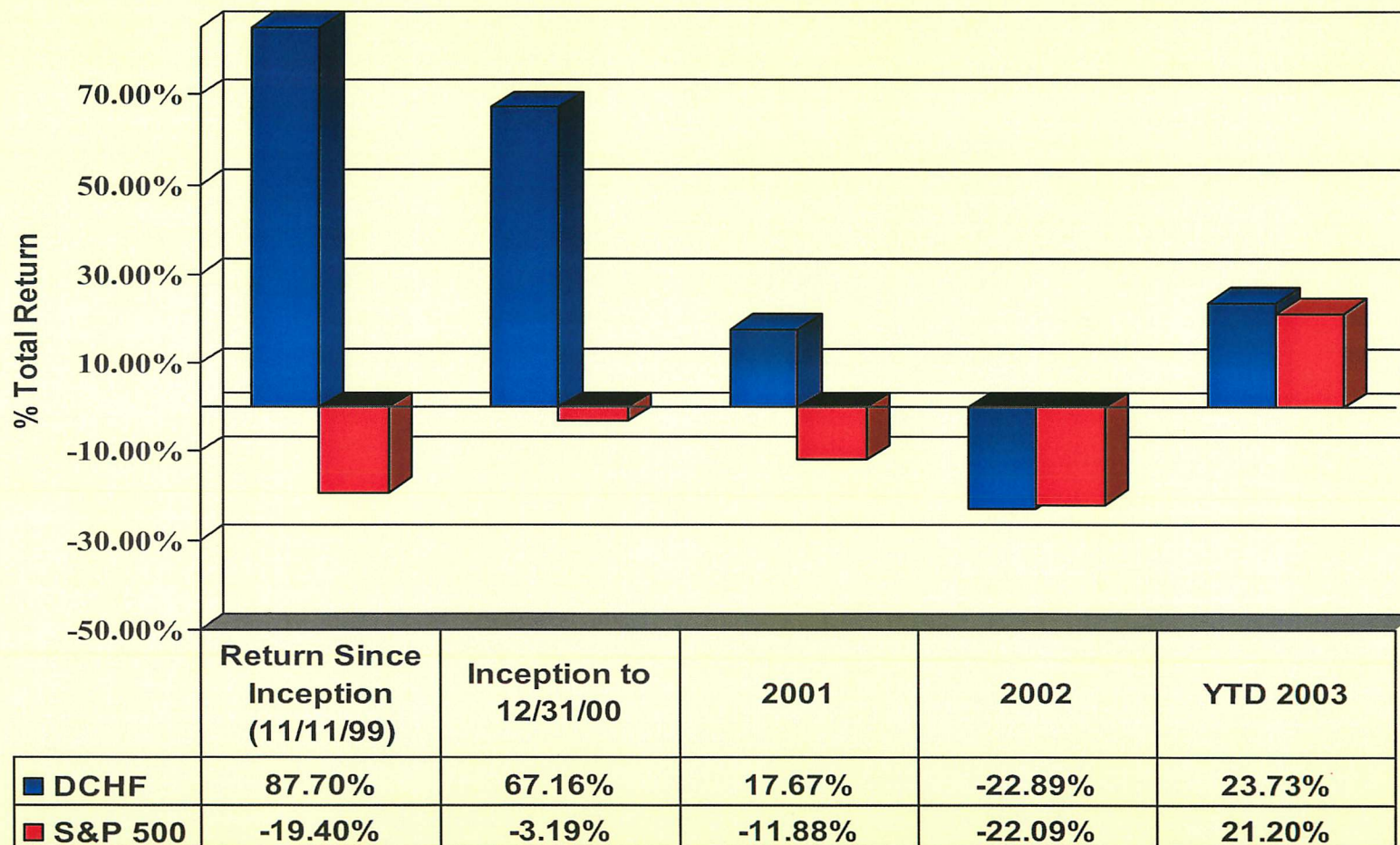
- 15 year association with David Dreman in researching Low P/E Investing
- 5 years experience as Managing Director/Senior Portfolio Manager of DVM
- Former Head of Asset Allocation and Quantitative Risk Analysis at Prudential Investments
- Former Director of Quantitative Finance at James Madison University



# Dreman Contrarian Hedge Fund Performance Comparison

## Calendar Year and Total Return

### Gross of Fee Performance



#### Notes to Performance:

The above performance figures are estimates and unaudited. All returns are calculated on a time weighted total return basis (i.e., includes all dividends, interest, accrued income, realized and unrealized gains and losses and are after all brokerage transaction charges.) Gross returns do not reflect the deduction of any management fee or incentive allocation. Actual after-tax returns depend on an investor's individual tax situation and may differ from those above. Past performance may not be indicative of future results.

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# Current Portfolio Structure: 9/30/03

## Exposure:

Long Positions	100.8%
Cash	3.7
Short Positions	43.7
Net Exposure	60.8

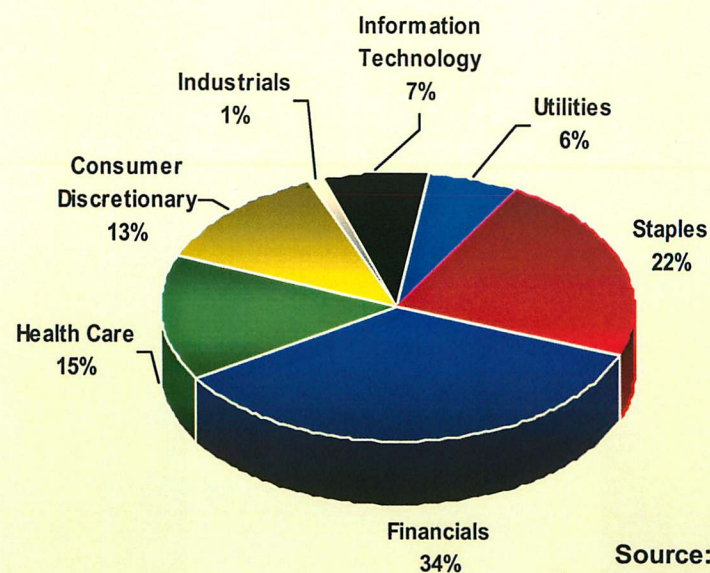
## Top Five Long Positions

Altria	15.1
Freddie Mac	14.4
Electronic Data Systems	6.9
Fannie Mae	6.6
Washington Mutual	6.2

## Portfolio Characteristics:

	<u>Long</u>	<u>Short</u>
P/E	15.2	38.2
P/BV	2.9	4.4
P/CF	9.3	25.9
Yield	2.8	0.1

## Sector Distribution of Longs



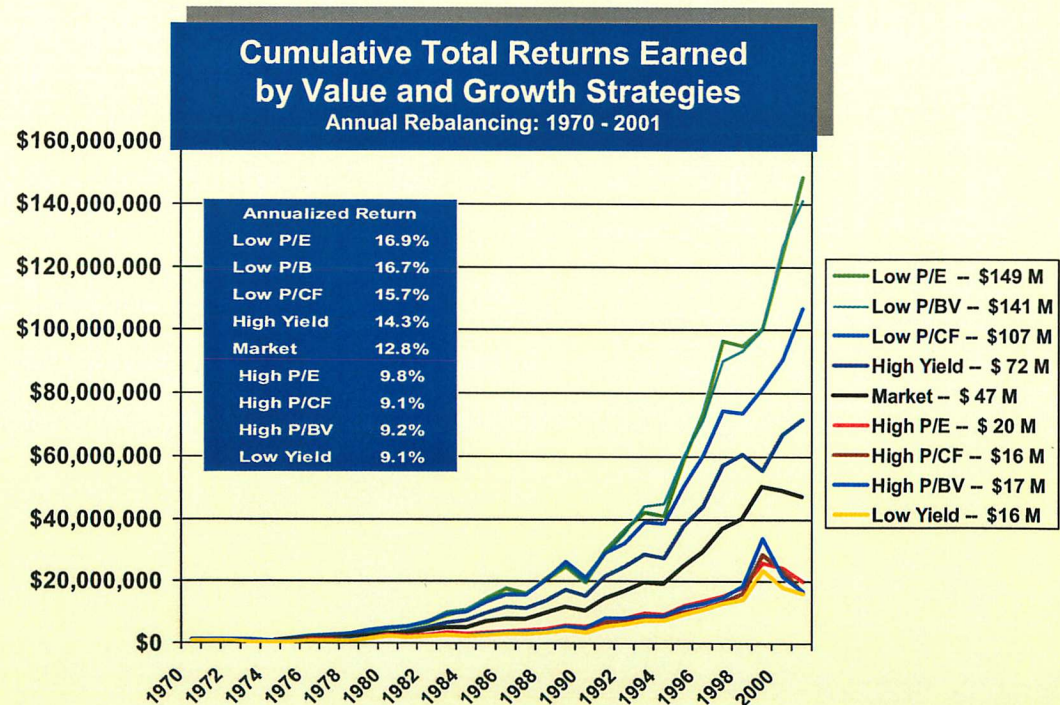
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# Investment Philosophy on the Long Side

- The premise that underlies our 30+ years of successful contrarian value investment experience is that Wall Street makes consistent and predictable mistakes in evaluating investment prospects.
- Low P/E, Low P/Book, and Low P/Cashflow stocks are consistently undervalued by the market, while High P/E, High P/Book, and High P/Cashflow are overvalued.

This chart shows the results of investing \$1,000,000 at the beginning of 1970 and rebalancing annually for the following 32 years, reinvesting dividends. The initial investment would have grown to well over \$100 million in low P/E, P/BV or P/CF stocks, and even to \$72 million in stocks with the highest dividend yield, compared to only \$47.0 million for the market.



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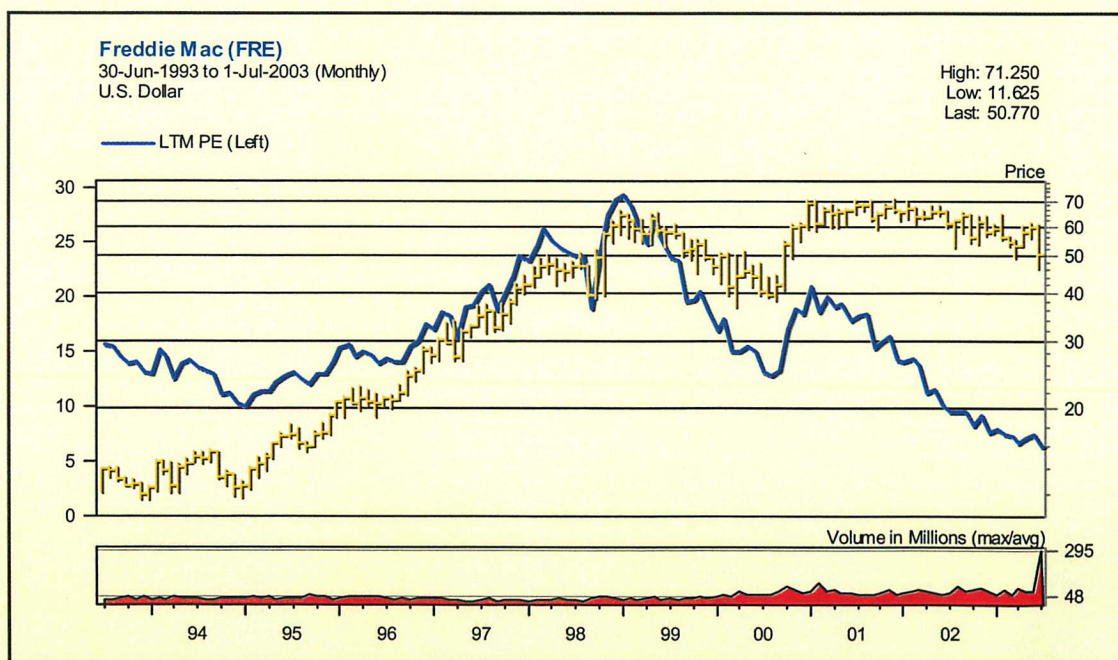
# Our Contrarian Philosophy at Work:

## Freddie Mac - A buy-and-hold success story that offers greater value today than any time in the last 10 years!

- Freddie Mac has been a long-term holding in our Large Cap Value strategy.
- At 13.6% of the fund, Freddie Mac is currently the second largest position.
- As the stock price recently fell to the \$50's, earnings growth has driven down the P/E to the lowest level in ten years.
- Compared to the S&P 500, Freddie Mac has generated double the annualized return and triple the EPS growth rate.
- Looking forward, we believe Freddie Mac will generate EPS growth at least 30% greater than the S&P 500 over the next 5 years.
- At current prices, Freddie offers significantly higher growth at just 30% of the market P/E multiple – a combination that we believe will lead to a significant performance advantage in the future.

### Ten-Year Performance Comparison:

	Annualized Return	Annualized EPS Growth
Freddie Mac	17.2%	24.8%
S&P 500	9.3%	5.2%



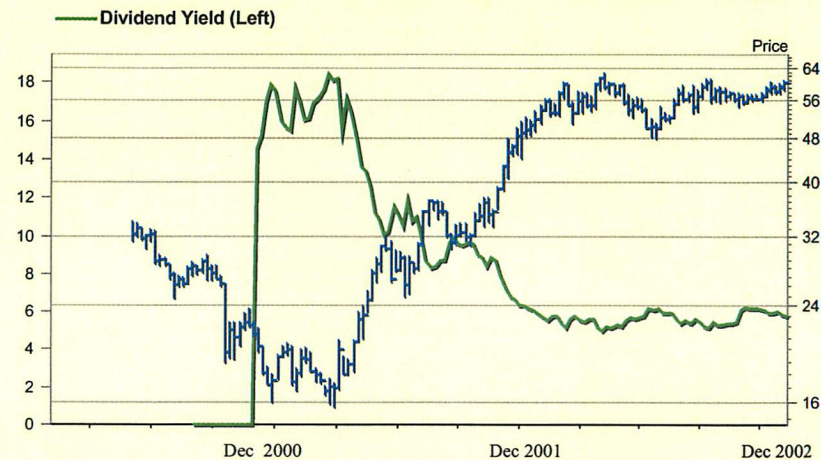


# Our Contrarian Philosophy at Work: R.J.Reynolds & Nabisco Group Holdings: Mispricing Arising from a Spin-Off

- In June of 1999 RJR Tobacco was spun-off to shareholders.
- In late Nov./early Dec. 1999 we purchased a 10% weight @\$20.70/shr. At the time, the P/E was under 10 and the yield was 19%!
- We still hold RJR, though we have reduced its portfolio weight to 5.5%. With a current yield of 5% and P/E of 8.5 on 2002 EPS forecasts, RJR still offers still offer attractive return potential.
- We purchased a 6% weight in Nabisco Group Holdings on 1/26/00 @ \$8.46. It was yielding 6% at the time of purchase.
- We sold on 12/13/00 @\$30 as Nabisco was taken over by Philip Morris.

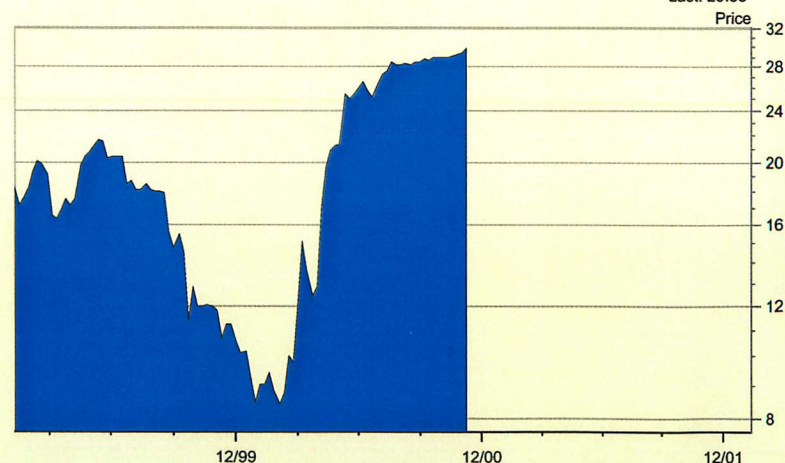
R.J. Reynolds Tobacco Holdings Inc. (RJR)  
Feb 5, 1999 - Feb 7, 2002  
U.S. Dollar

High: 62.70  
Low: 15.75  
Last: 60.44



Nabisco Group Hldgs Corp (NGH)  
Feb 5, 1999 - Feb 7, 2002  
U.S. Dollar

High: 30.00  
Low: 8.19  
Last: 29.88



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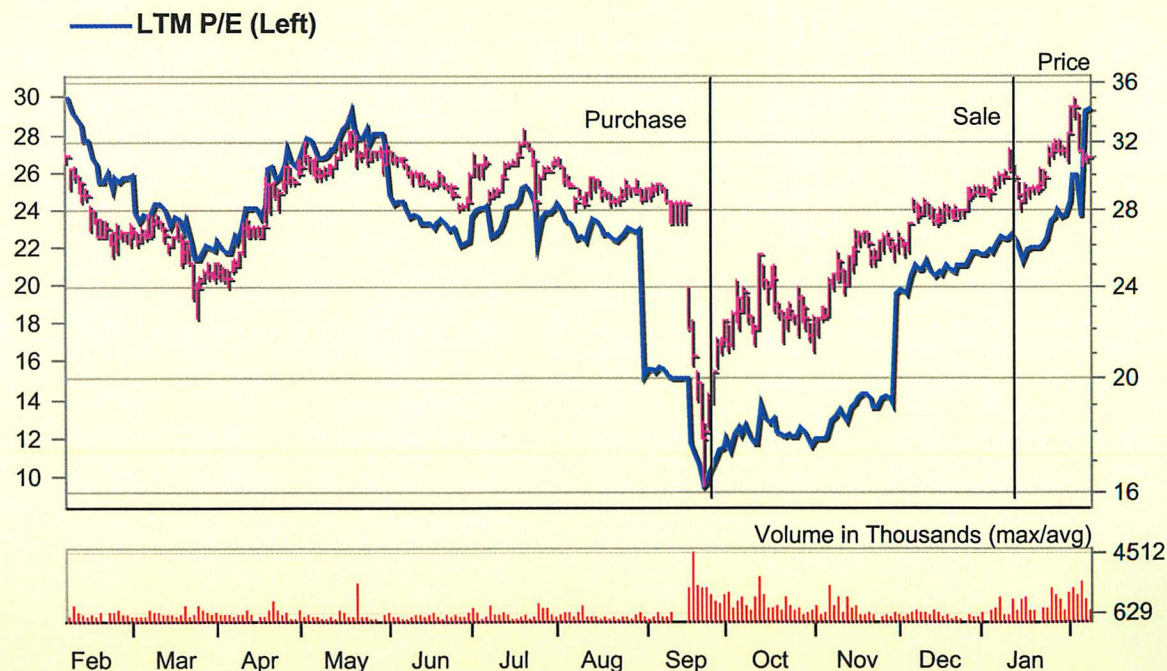


# Our Contrarian Philosophy at Work: Investor Reaction to the Tragedy of Sept 11<sup>th</sup> : A Classic in Crisis Investing

- Travel related stocks were crushed when the market opened following the 9/11 attack.
- Casino stocks were especially hard hit. For example, MGM Mirage fell 50% in a matter of days once the market reopened.
- On 9/21/01, we purchased a 4.5% portfolio position in MGM Mirage at a price of \$16.30. At the time of purchase, MGM Mirage had a P/E of 10 and the LT growth estimates were 15%+.
- Once the panic subsided, It did not take the market long to realize that the long term prospects for Las Vegas gambling remained intact.
- We sold MGM Mirage on 1/11/02 at \$30.15.

**MGM MIRAGE (MGG)**  
Feb 6, 2001 - Feb 7, 2002  
U.S. Dollar

High: 35.00  
Low: 16.19  
Last: 31.09



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# Our Contrarian Philosophy at Work: Best Buy: Quality Growth On Sale!

Best Buy sold off sharply during the 3<sup>rd</sup> quarter of 2002 on fears of a collapse in consumer spending. The fears were over-blown and we took the opportunity to add this premier retailer at historically low valuation levels.

## Best Buy Co. Inc. (BBY)

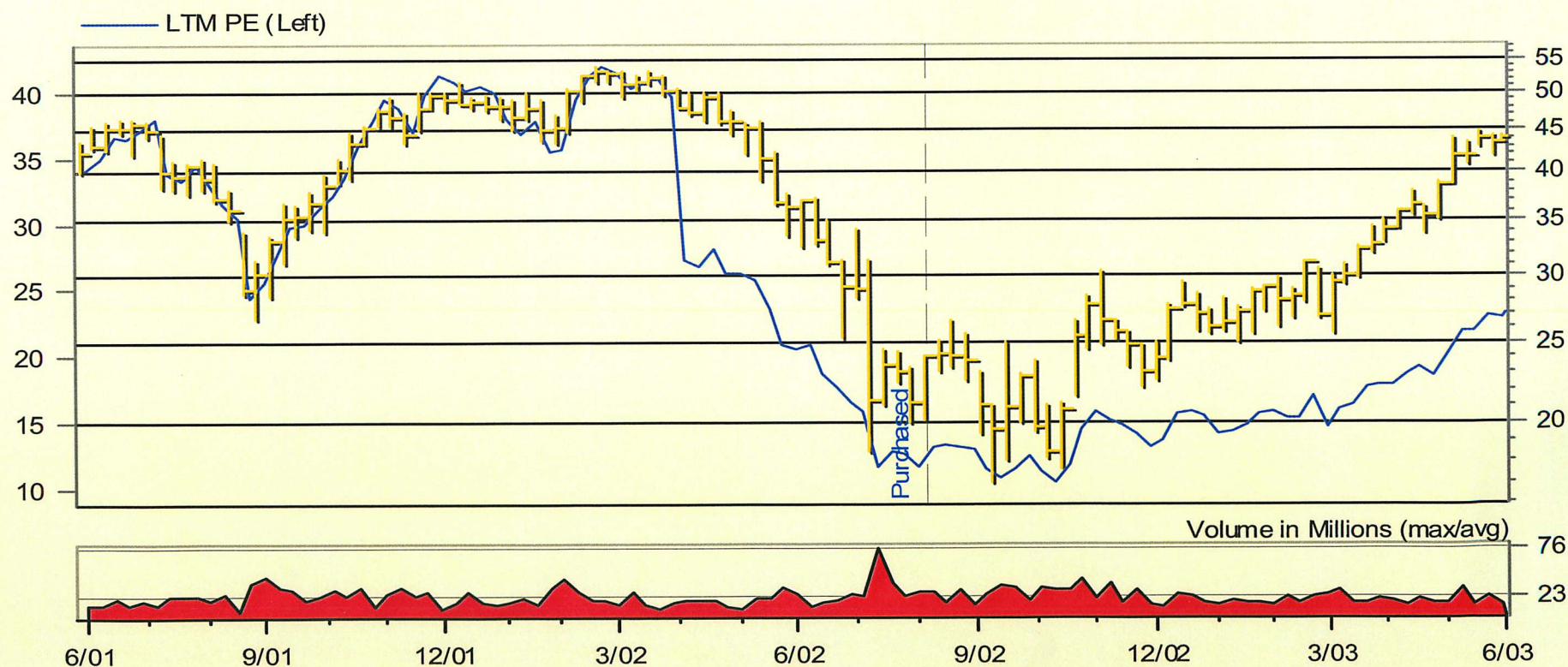
29-Jun-2001 to 30-Jun-2003 (Weekly)

U.S. Dollar

High: 53.747

Low: 16.990

Last: 44.020





# Current Outlook for Short Selling

- **At current valuation levels, there is little room for overall market P/E expansion**
  - Using current estimates of \$42.3 for 2003 GAAP earnings for the S&P 500 yields a P/E of 23, a high valuation based on historical standards
- **Technology stocks, in general, are still too expensive. The NASDAQ 100 represents \$1.5 trillion in market cap and generated \$11 billion in net income over the last 12 months.**
- **Large Cap growth stocks with P/E's of 30 – 100 with single digit growth rates are too expensive. These stocks provide good opportunity for low risk shorts.**
- **With interest rates at historic lows, we believe the 30 year bond will be a profitable short in the near future.**

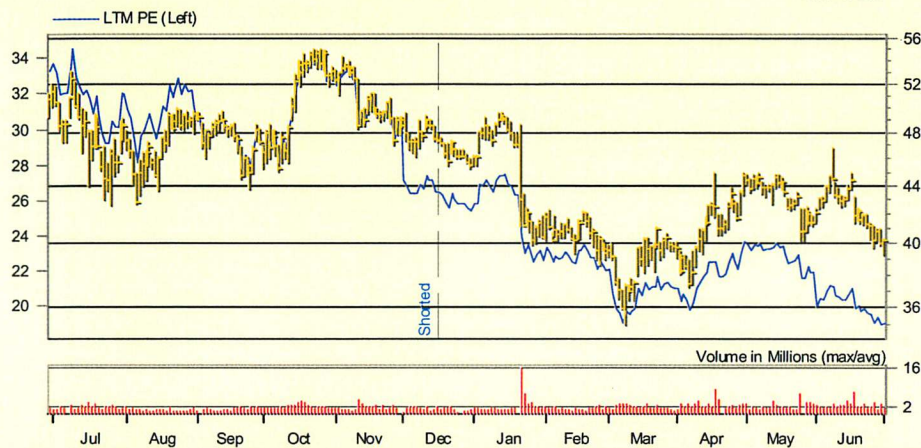


# Our Contrarian Philosophy at Work

## Recent Short Opportunities

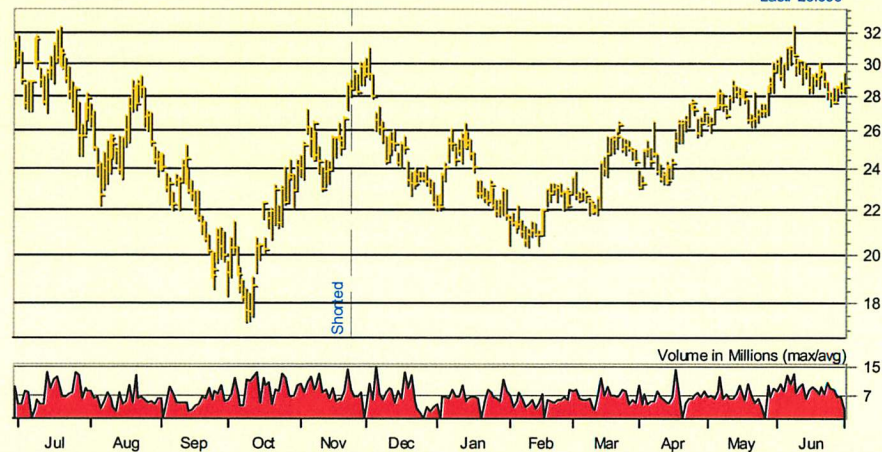
**Harley-Davidson Inc. (HDI)**  
27-Jun-2002 to 30-Jun-2003 (Daily)  
U.S. Dollar

High: 54.990  
Low: 35.010  
Last: 40.200



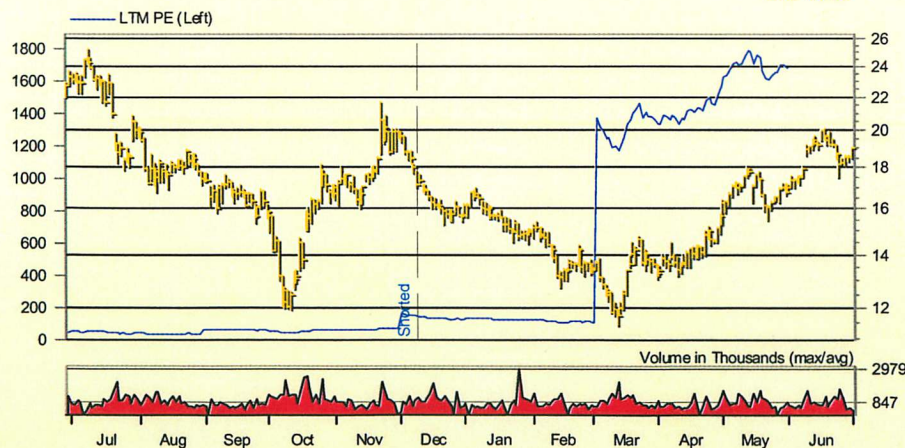
**Semiconductor HOLDRs T Trust (SMH)**  
27-Jun-2002 to 30-Jun-2003 (Daily)  
U.S. Dollar

High: 32.470  
Low: 17.320  
Last: 28.630



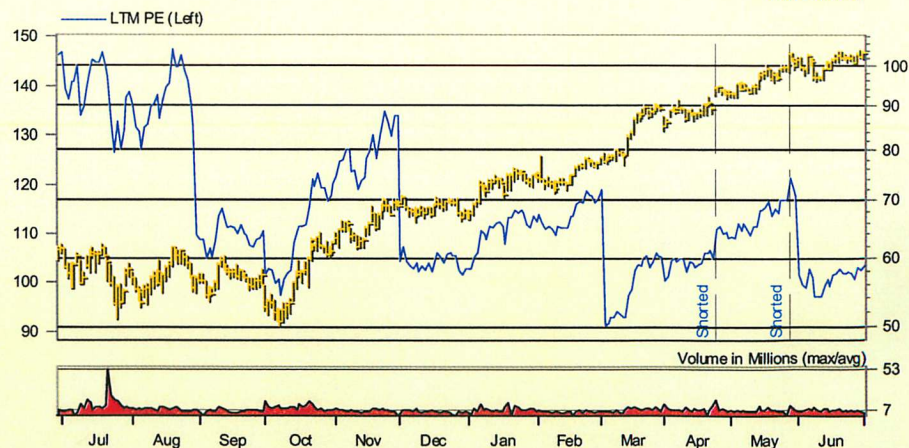
**Robert Half International Inc. (RHI)**  
27-Jun-2002 to 30-Jun-2003 (Daily)  
U.S. Dollar

High: 25.200  
Low: 11.440  
Last: 19.000



**eBay Inc. (EBAY)**  
27-Jun-2002 to 30-Jun-2003 (Daily)  
U.S. Dollar

High: 104.180  
Low: 50.224  
Last: 103.390





# Dreman Contrarian Hedge Fund Structure

- **Minimum investment \$1 million**
- **Lock-up: One year at end of quarter**
- **Withdrawals/distributions: Quarterly**
- **Fee: 1% management fee/ 20% reallocation of net income (high water mark)**

This Term Sheet outlines the proposed terms of an offering of limited Partnership Interests of the Dreman Contrarian hedge Fund, L.P.. No Interests shall be offered or sold to any person without the Partnership first delivering to such person a definitive Offering Memorandum setting forth the final terms of such offering.

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